



February 20, 2018

TO THE HONORABLE CITY COUNCIL:

The Measure HH – Essential City Services Oversight Advisory Committee is pleased to have the opportunity to present to you its comments and conclusions concerning the usage of Measure HH revenues in the City's proposed annual budget and during the final quarter for the fiscal year ended June 30, 2017.

The Committee was established by the City council on April 4, 2017 after passage of Measure HH on the November 8, 2016 ballot. One of the provisions of this measure was the creation of an Oversight Committee to review and make recommendations to the City Council to ensure that revenues from it are utilized in accordance with the City's Responsible Spending Pledge.

The newly appointed Oversight Committee's first meeting was held on August 3, 2017. At that meeting, the Committee received an orientation by City Staff concerning Committee responsibilities and received presentations by City Staff on the current year adopted budget, the CAFR for the year ended June 30, 2016, and the ten-year long range financial plan. The Committee's second meeting was held on October 19, 2017, where City Staff presented the unaudited report on Measure HH revenues and expenditures for the year ended June 30, 2017 and discussed some sample "report cards" for usage of Measure HH funds. Its third and final meeting of 2017 was held on December 7th, where we continued to discuss the methodology for measuring the usage of Measure HH funds to insure consistency with the Measure HH ballot measure.

The Committee has met twice in 2018. On January 11th, the City's Auditor, Robert Callanan of White Nelson Diehl Evans LLP, CPA, an independent auditing firm, presented the Measure HH audit report for the year ended June 30, 2017. The City Staff discussed with the Committee the revenues and expenditures from Measure HH in the current 2017-18 budget. On February 8th, we discussed the report to the city council.

The auditor's report reflected three months of revenue in the amount of \$2,525,908 associated with Measure HH, which became effective April 1, 2017. \$778,588 was expended to maintain Public Safety, Senior and Youth Programs during the Fiscal Year 2016-17. The balance of \$1,747,320 was deposited into the City's Budget Stabilization Reserves.

Each of the committee members of the Measure HH Oversight Committee understands the enormous responsibility we each have in insuring the proper usage of Measure HH funds. As a newly constituted committee of the City, the Measure HH Oversight Committee continues to absorb the tremendous amount of financial information presented to it by City Staff. There are several areas that we wish to continue to explore, in addition to reviewing yearly budgeted and actual revenue and expenditures, they include: refining an easy-to-read "report card" style summary of Measure HH usage; establishing a long-range goal of weaning the City off of Measure HH revenue by its expiration in the year 2036 (and creating a methodology for achieving this goal); and providing a methodology for collecting and presenting historical Measure HH data for use by future Measure HH Oversight Committee members and by future City Council members. Additionally, we would like to work on a method to ensure that the residents of

Fountain Valley continue to stay abreast of measure HH capital expenditures. If we can progress in these areas, then we will be providing a valuable service to the City of Fountain Valley and its residents.

CONCLUSIONS: The information presented to the Measure HH Oversight Committee by City Staff concerning the usage of Measure HH revenue has been very thorough and has elicited good discussion among Committee members. The Measure HH Oversight Committee's conclusion to the City Council is that (based on information presented to the Committee by City Staff) the actual revenue and expenses for the year ended June 30, 2017 are consistent with the intent of the Measure HH ballot measure, the current year (2017-18) budgeted revenue and expenses are consistent with the intent of the Measure HH ballot measure.

We are thankful for the opportunity to serve and we look forward to continuing to serve the City Council and the residents of our great city.

Respectfully submitted,



CITY OF FOUNTAIN VALLEY MEASURE HH OVERSIGHT COMMITTEE

John Briscoe, Chair
Marjorie Drilling, Vice Chair
Michele Jensen
Jeffrey Stone
Matt Taylor
Stephen Schwartz, Alternate

Attachments:

1. Measure HH Audit Report for 2016-17
2. Measure HH Report Card for 2016-17
3. Draft of future Report Card

CITY OF FOUNTAIN VALLEY, CALIFORNIA

**SCHEDULE OF MEASURE HH
REVENUES AND EXPENDITURES**

**WITH INDEPENDENT ACCOUNTANTS' REPORT ON
EXAMINATION REPORT ON MANAGEMENT'S ASSERTIONS
ABOUT THE CITY'S COMPLIANCE WITH MEASURE HH**

FOR THE YEAR ENDED JUNE 30, 2017

INDEPENDENT ACCOUNTANTS' REPORT
ON EXAMINATION REPORT ON MANAGEMENT'S ASSERTIONS
ABOUT THE CITY'S COMPLIANCE WITH MEASURE HH

To the Honorable Mayor
and Members of City Council
of the City of Fountain Valley
Fountain Valley, California

We have examined management of the City of Fountain Valley, California's, (City) assertion that the City complied with Measure HH included in the accompanying Schedule of Measure HH Revenues and Expenditures (Schedule) during the fiscal year ended June 30, 2017. The City's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with the specified requirements.

In our opinion, management's assertion that the City complied with Measure HH reporting requirements included in the accompanying Schedule is fairly stated, in all material respects.

This report is intended solely for the information and use of the City Council and management of the City of Fountain Valley, California and is not suitable for any other purpose.

White Nelson Diehl Evans LLP

Irvine, California
December 15, 2017

CITY OF FOUNTAIN VALLEY

SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES

For the year ended June 30, 2017

Measure HH Revenues	\$ 2,525,908
Measure HH Expenditures:	
Essential City Services: funding gap - maintain existing services	<u>778,588</u>
Financial Stewardship: general fund reserves	<u>\$ 1,747,320</u>

See accompanying notes to the Schedule of Measure HH Revenues and Expenditures.

CITY OF FOUNTAIN VALLEY

NOTES TO SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES

For the year ended June 30, 2017

1. BASIS OF ACCOUNTING AND MEASUREMENT FOCUS:

The Measure HH Revenues and Expenditures Schedule (Schedule) is presented using the *modified-accrual basis of accounting*. Under the modified-accrual basis of accounting, revenues are recognized when they become both *measurable* and *available*. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

2. REVENUES AND EXPENDITURES:

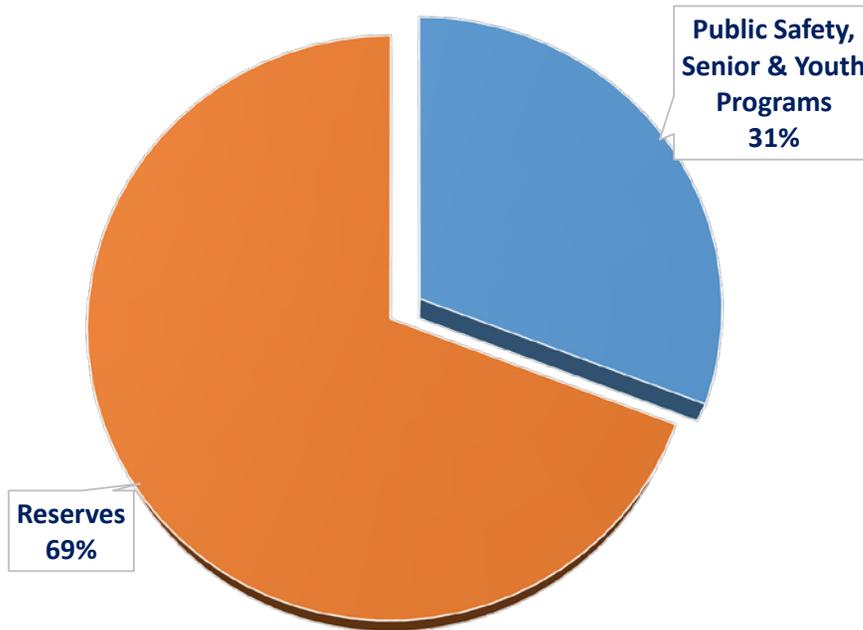
Measure HH revenues consist of the one-cent transactions and use (i.e. “sales”) tax approved by the voters of Fountain Valley on November 8, 2016. Measure HH became effective April 1, 2017, which provided three months of revenue in Fiscal Year 2016/17 in the amount of approximately \$2.5 million.

Measure HH is a general purpose tax, which means the revenues received from the tax go into the City’s General Fund to maintain or enhance any lawful City program, improvement or service such as police and fire services, senior and youth programs, etc. Without Measure HH, the General Fund’s operating deficit for Fiscal Year 2016/17 would have been \$778,588. Measure HH expenditures consists of the utilization of funds in the fiscal year to maintain existing services and amounts to \$778,588. The remaining balance of Measure HH funds represents the unexpended amount that was deposited into the City’s Budget Stabilization Reserves.

MEASURE HH REPORT CARD



This Report Card is provided by the Measure HH Oversight Committee based on the audit of Measure HH revenues and expenditures for the fiscal year ended June 30, 2017, which reflects that the use of Measure HH revenues is consistent with the Responsible Spending Pledge.



Essential City Services
778,588

Public Safety, Senior & Youth Programs



Financial Stewardship
1,747,320

General Fund Reserves

CITY OF FOUNTAIN VALLEY
 SCHEDULE OF MEASURE HH REVENUES AND EXPENDITURES
 Fiscal Year Ended June 30, 2017

Measure HH Revenues	\$ 2,525,908
Measure HH Expenditures:	
Funding Gap - Essential City Services*	778,588
Financial Stewardship: General Fund Reserves	\$ 1,747,320

* Without Measure HH, the operating deficit for Fiscal Year 2016/17 would have been \$778,588. Measure HH provided necessary funding in Fiscal Year 2016/17 that was used for the following in accordance with the **Responsible Spending Pledge**:

Public Safety

Police and Fire Pension Costs that are Legally Required to be Paid to CalPERS	498,345
Police Officer Hired in April 2017	19,192
Total Public Safety	517,537

Senior & Youth Programs

Amount associated with the cost to keep the Recreation Center, Community Center & Senior Center open.	261,051
---	---------

Funding Gap - Essential City Services	778,588
--	----------------

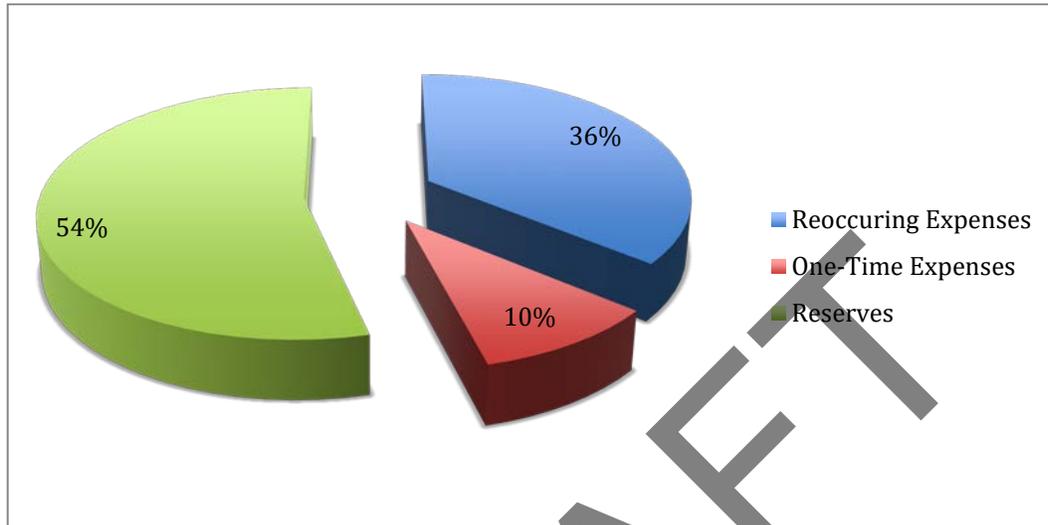
General Fund Reserves - Budget Stabilization¹	1,747,320
---	------------------

¹ \$1.7 million was deposited into the City's Budget Stabilization Reserves pursuant to the City's Fund Balance Policy which brings Budget Stabilization Reserves to \$4,247,320. The targeted reserve level is \$4.5 million based on the Fund Balance Policy that was adopted by the City Council on 2/18/14.

Measuring Budget Sustainability

Principle: The less HH revenue dedicated to reoccurring expenses for the City of Fountain Valley the better. Over the life of Measure HH the goal of the city should be to reduce to zero the reliance on HH revenue to fund reoccurring expenses for the City.

For FY 2017-2018 the City budget assumes Measure HH revenue at \$10.5 million. Through the lens of budget sustainability the City plans to spend that \$10.5 million like this:



Option for Pie Chart on Budget for FY 2017-1018

